OPERATIONAL AUDIT

Oklahoma Pardon and Parole Board

For the period July 1, 2013 through June 30, 2016

Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

Audit Report of the Oklahoma Pardon and Parole Board

For the Period July 1, 2013 through June 30, 2016

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Oklahoma State Auditor & Inspector

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February 23, 2017

TO GOVERNOR MARY FALLIN

This is the audit report of the Oklahoma Pardon and Parole Board for the period July 1, 2013 through June 30, 2016. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during our engagement.

This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.

Sincerely,

Gary A. Jones

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

Background

Created in 1979, the Oklahoma Pardon and Parole Board is responsible for conducting impartial investigations and studies of applicants for commutations, pardons, or paroles; and recommending to the Governor those applicants worthy of clemency. The board also has the authority to grant parole for non-violent offenders.

Oversight is provided by a five member board: three appointed by the Governor, one by the Chief Justice of the State Supreme Court, and one by the presiding Judge of the Court of Criminal Appeals.

Board members as of February 2017 are:

The Honorable Thomas Gillert .... Chairperson
Patricia High. .... Vice-Chairperson
Vanessa Price. .... Member
Robert Macy. .... Member
William Latimer. .... Member

The following table summarizes the Agency's revenues and expenditures for fiscal years 2015 and 2016 (July 1, 2014 through June 30, 2016).

Revenues and Expenditures for FY 2015 and FY 2016

	2015	2016
Revenues:		
Appropriations	$ 2,453,693.08	$ 2,285,998.40
Total Revenues	**$ 2,453,693.08**	**$ 2,285,998.40**
Expenditures:		
Personnel Services	$ 2,078,929.06	$ 2,148,689.92
Professional Services	140,261.66	97,914.51
Travel	44,047.23	46,573.74
Administrative Expenses	90,294.83	81,719.98
Property, Furniture, Equipment	11,887.92	8,345.71
Total Expenditures	**$ 2,365,420.70**	**$ 2,383,243.86**

Source: Oklahoma PeopleSoft accounting system (unaudited, for informational purposes only)

Scope and Methodology

Our audit was conducted in response to Governor Fallin's request in accordance with 74 O.S. § 212.C and 213.2.B.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessment of materiality and risk for the period July 1, 2013 through June 30, 2016. Detailed audit procedures focused on the period of July 1, 2014 through June 30, 2016, addressing the most current financial processes and providing the most relevant and timely recommendations for management, with the exception of Board member salary compliance procedures, which included the period July 1, 2013 through June 30, 2016.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Oklahoma Pardon and Parole Board's operations. We utilized sampling of transactions to achieve our objectives. To ensure the samples were representative of the population and provided sufficient, appropriate evidence, the random sample methodology was used. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

OBJECTIVE

Determine whether the Agency's internal controls provide reasonable assurance that expenditures (both miscellaneous and payroll) and inventory were accurately reported in the accounting records.

Conclusion

The Agency's internal controls did not provide reasonable assurance that expenditures (miscellaneous and payroll) and inventory were accurately reported in the accounting records.

Financial operations did not comply with:

- 57 O.S. § 332.4, Board Compensation

FINDINGS AND RECOMMENDATIONS

Inadequate Segregation of Duties over Expenditures

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government (2014 update)*[1] states, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event. "

The Deputy Director is responsible for submitting purchase orders, making purchases, and submitting invoices to the Office of Management Enterprise Services (OMES), Agency Business Services division for payment. Although the Executive Director retains monthly detailed reports of expenditures, we were unable to verify her review due to the lack of an approving signature or other marks which would indicate a review.

This arrangement of duties creates the risk that unauthorized expenditures could occur without detection.

Recommendation

We recommend management implement procedures where an independent party, such as the Executive Director, perform a monthly detailed review of all expenditures and document this review; for example by reviewing, signing, and dating a detailed six-digit expenditure report.

Views of Responsible Officials

It is the Pardon and Parole Board's (PPB's) understanding that no unauthorized expenditures were found in the audit. While a monthly review of the expenditures was occurring, as per the recommendation of the auditor, the Executive Director will initial and date the detailed six-digit expenditure report and continue to maintain such documentation each fiscal year.

[1] Although this publication addresses controls in the federal government, this criterion can be treated as best practices. The theory of controls applies uniformly to federal or state government.

Inadequate Segregation of Duties over Payroll

As noted previously, GAO *Standards* state, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event. "

The Deputy Director is currently responsible for reviewing and approving payroll documents and serves as the Agency's primary point of contact with the OMES – Human Capital Management division for payroll processing. Although the Executive Director is copied on payroll correspondence, she is not reviewing the information in detail.

It appears management was not aware of the risks created by this arrangement of duties. This arrangement of duties creates the risk that unauthorized payroll changes could occur without detection.

Recommendation

We recommend management implement procedures where a PeopleSoft HR All Actions report is reviewed each pay period by someone independent of the payroll process. The review should ensure that only approved changes have been entered into PeopleSoft and that the effective date and salary in the HR All Actions report matches the amount/date approved on the corresponding Agency Job Data Information Sheet, HCM-92, and/or Form 14.

Views of Responsible Officials

It is the PPB's understanding that no unauthorized payroll changes were found through the audit. Due to the size of the agency, the Deputy Director serves as the primary point of contact; however, the Executive Director is copied on all payroll submissions which are submitted via email to OMES. In the future, the Executive Director will also review the HR All Actions Report to ensure that the report matches the amount and date approved on the Agency Job Data Information Sheet, HCM-92 and/or Form 14 and will initial and date the HR All Actions Report and maintain such documentation for each fiscal year. The OMES contact will provide the HR All Actions Report directly to the Executive Director until such time as access can be obtained.

Inadequate Segregation of Duties over Inventory

As noted previously, GAO *Standards* state that in order to safeguard assets, "Such assets should be periodically counted and compared to control records." It further states that "Management must design an internal control system to provide reasonable assurance regarding prevention or prompt detection and correction of unauthorized acquisition, use, or disposition of an entity's assets."

Oklahoma Administrative Code (OAC) 260:110-3-1 states that, "All agencies must submit an annual report of current inventory of tangible assets owned by the agency as of June 30 of the preceding fiscal year to the Office by August 15."

The following conditions were identified regarding inventory controls:

- Written inventory policies and procedures do not exist;
- Inventory records are inaccurate and incomplete;
- Inventory duties are not properly segregated; the Deputy Director performs most duties related to inventory (labeling inventory, conducting inventory counts, and maintaining the inventory database);
- The agency did not conduct annual inventory counts for IT items during the audit period; and
- The agency did not submit required annual inventory reports to OMES during the audit period.

It appears that management was not aware that inventory duties were not properly segregated and that the yearly inventory count needed to include IT equipment maintained by OMES. This arrangement of duties creates the opportunity for inventory to be misstated or misappropriated without detection and agency assets may not be properly insured. In addition, when the agency fails to submit inventory reports to OMES, they are not complying with OAC 260:110-3-1.

Recommendation

We recommend that management:

- Develop inventory policies and procedures and ensure compliance;
- Establish an accurate baseline of IT inventory, and ensure that a comprehensive inventory count that includes IT equipment is performed and documented by someone independent from purchasing assets, maintaining inventory items and inventory records, and disposing of surplus assets;
- Segregate duties to ensure that no one individual can make purchases, receive goods ordered, maintain internal inventory records, and perform inventory counts;
- Design and implement an inventory database with access and permission controls; and

- Submit required annual inventory reports to OMES to ensure compliance with OAC 260:110-3-1.

Views of Responsible Officials

As per the recommendations of the auditor, inventory policies and procedures will be developed, including attention to an appropriate segregation of duties. Inventories, both physical assets and IT equipment will be conducted by more than one employee and the subsequent inventory and will be submitted annually to the appropriate agency. The inventory report will be secured and protected with no access to those that conduct the inventory.

Non-compliance with 57 O.S. § 332.4 – Board compensation

As per 57 O.S. § 332.4, "Failure of any member to attend one Board meeting in any calendar year, except for justifiable excuse as determined by the Chair pursuant to written policy established by the Board, shall preclude the right of the member to receive his or her monthly compensation. In addition, any member who fails to attend two or more Board meetings in any calendar year except for extraordinary circumstances as determined by the Chair pursuant to written policy established by the Board shall be deemed to have committed official misconduct."

One Board member was not paid for their first absence during a calendar year. This occurred due to the Agency considering the number of absences by the Board member to be on a state fiscal year instead of a calendar year as set forth in statute. In addition, the agency's written policies and procedures do not address what types of absences are justifiable or are considered to be extraordinary circumstances; and if an absence occurs, documentation is not maintained indicating approval from the Board Chair.

Without greater detail in the agencies existing policy and procedures, the process for authorizing Board member absences could result in Board members being paid for unauthorized absences or Board member not being paid for an authorized absence.

Recommendation

To ensure compliance with 57 O.S. § 332.4, management should review and update current policies and procedures to ensure written records are maintained for all Board member absences and the reason for the absence should be approved by the Board Chair (Executive Director approval for Board Chair absences).

Views of Responsible Officials

The Board has approved written policies that mirror the statutory requirements for Board attendance. The Board is in process of developing procedures that will address the processes by which Board members notify the Chairperson and administrative staff of an absence as well as the approval or disapproval of that absence by the Chairperson. Email documentation will be maintained by the administrative staff. An annual log of Board attendance has been implemented which will tie back to the minutes that documents the Board's attendance.

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